

**ROY WATER CONSERVANCY DISTRICT
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED DECEMBER 31, 2008**

**ROY WATER CONSERVANCY DISTRICT
YEAR ENDED DECEMBER 31, 2008**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1-2
Management's Discussion & Analysis	3-11
Basic Financial Statements:	
Balance Sheet.....	12
Statement of Revenues, Expenses, and Changes in Net Assets.....	13
Statement of Cash Flows	14
Notes to Basic Financial Statements	15-24
Supplementary Information:	
Impact Fee Reporting.....	25-27
Independent Auditor's Report – State of Utah Legal Compliance	28
Report on Compliance and Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	29-30

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Roy Water Conservancy District

We have audited the accompanying financial statements of the business-type activities of Roy Water Conservancy District, as of and for the year ended December 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Roy Water Conservancy District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Roy Water Conservancy District, as of December 31, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2009, on our consideration of Roy Water Conservancy District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees
Roy Water Conservancy District

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Roy Water Conservancy District's basic financial statements. The impact fee schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The impact fee schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

WOOD Richards & Associates

Ogden, Utah
May 27, 2009

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

This section of the Roy Water Conservancy District (the "District") annual financial report presents our discussion and analysis of the financial performance of the District during the calendar year 2008. This discussion has been prepared by District management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by the financial statements and footnotes.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), *Basic Financial Statements and Management's Discussion and Analysis*.

One of the most important questions asked is whether the District as a whole is better or worse off as a result of the year's activities. The key to understanding this question is the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Balance Sheet includes all assets and liabilities. The District's net assets (the difference between assets and liabilities) are one indicator of the District's financial health. Over time, increases, or decreases in net assets is one indicator of the improvement or erosion of the District's financial health when considered with non-financial facts such as growth of the system and the condition of the facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital and related financing, and investing activities.

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

REPORTING ENTITY

The financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies.

BALANCE SHEET INFORMATION

A summarized comparison of the District's assets, liabilities and net assets at December 31, 2008, and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Assets:		
Cash and investments	\$ 2,554,540	\$ 2,589,375
Other assets	253,692	257,004
Capital assets	<u>11,885,143</u>	<u>11,909,677</u>
Total assets	<u>\$14,693,375</u>	<u>\$14,756,056</u>
Liabilities:		
Current liabilities	\$ 154,565	\$ 320,078
Noncurrent liabilities	<u>1,835,000</u>	<u>1,918,257</u>
Total liabilities	<u>1,989,565</u>	<u>2,238,335</u>
Net assets:		
Invested in capital assets, net of related debt	10,056,153	9,855,187
Restricted	268,029	258,917
Unrestricted	<u>2,379,628</u>	<u>2,403,617</u>
Total net assets	<u>12,703,810</u>	<u>12,517,721</u>
Total liabilities and net assets	<u>\$14,693,375</u>	<u>\$14,756,056</u>

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

CASH AND INVESTMENTS

The net cash provided by operating activities is \$329,937. Major uses of cash and investments include: District acquisition and construction of capital assets of \$280,386, bond payments required of \$334,183. Overall, the District's cash, and investments decreased by (\$34,835). The total ending balance of cash and investments is \$2,554,540.

CAPITAL ASSETS

Net capital assets at the end of 2008 and 2007 were \$10,579,232 and \$10,603,766, respectively. The District's capital assets consist of land easements, buildings, equipment, and the water delivery system.

The significant differences between 2008 and 2007 were contributions from developers, a waterline project at 6000 South from 3750 West to approximately 4300 West, a waterline project at 6075 South from 2000 West to 2075 West, and equipment purchases.

(Remainder of page intentionally left blank)

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

CAPITAL ASSETS (CONTINUED)

A summary of the changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 249,723	\$ -	\$ -	\$ 249,723
Land easements	1,258	-	-	1,258
Total capital assets, not being depreciated	<u>250,981</u>	<u>-</u>	<u>-</u>	<u>250,981</u>
Capital assets, being depreciated				
Building	304,346	-	-	304,346
Equipment	798,997	84,578	(150,452)	733,123
Water delivery system	15,711,450	322,967	-	16,034,417
Total capital assets, being depreciated	<u>16,814,793</u>	<u>407,545</u>	<u>(150,452)</u>	<u>17,071,886</u>
Accumulated Depreciation for:				
Building	(50,806)	-	(6,735)	(57,541)
Equipment	(467,966)	101,681	(57,463)	(423,748)
Water delivery system	(5,943,236)	-	(319,110)	(6,262,346)
Total accumulated depreciation	<u>(6,462,008)</u>	<u>101,681</u>	<u>(383,308)</u>	<u>(6,743,635)</u>
Total capital assets, being depreciated, net	<u>10,352,785</u>	<u>509,226</u>	<u>(533,760)</u>	<u>10,328,251</u>
Business-type activities capital assets, net	<u>\$10,603,766</u>	<u>\$ 509,226</u>	<u>\$ (533,760)</u>	<u>\$10,579,232</u>

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

DEBT OUTSTANDING

Long-term liabilities for 2008 and 2007 were \$2,158,257 and \$1,933,496 respectively. Long-term debt was reduced by \$230,000. The water revenue bonds will be paid in full by 2026.

Current liabilities totaled \$154,565 in 2008 and \$320,078 in 2007. The decrease was due to a reduction of the current portion of bonds payable by \$155,000.

Below is a chart showing the beginning and ending balances of debt and the additions and deletions of those debts.

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008	Amounts Due Within One Year
Revenue Bonds Payable	\$ 2,140,000	\$ -	\$ (230,000)	\$ 1,910,000	\$ 75,000
Accrued Annual Leave	18,257	15,490	(10,251)	23,496	23,496
	<u>\$ 2,158,257</u>	<u>\$ 15,490</u>	<u>\$ (240,251)</u>	<u>\$ 1,933,496</u>	<u>\$ 98,496</u>

NET ASSETS

The District's total net assets as of December 31, 2008 were \$12,703,810 and were \$12,517,721 in 2007.

Investments in capital assets net of related debt was \$10,056,153 as of December 31, 2008. Restricted net assets totaled \$268,029, and unrestricted net assets totaled \$2,379,628.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents the District's result of operations. A summarized comparison of the District's revenues, expenses, and changes in net assets for the years ended December 31, 2008 and 2007 are as follows:

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	2008	2007
OPERATING REVENUES:		
Property taxes:	\$ 160,327	\$ 168,979
Water assessments	1,518,013	1,477,037
Other operating income	49,142	59,764
Total operating income	1,727,482	1,705,780
OPERATING EXPENSES:		
Salaries and wages	367,685	322,118
Water assessments	414,632	384,273
Personnel costs	229,451	231,588
Repairs and maintenance	113,927	89,000
Depreciation and amortization	387,809	379,760
Supplies & other operating expenses	251,892	273,643
Total operating expenses	1,765,396	1,680,382
Operating income	(37,914)	25,398
NONOPERATING REVENUES (EXPENSES):		
Impact fees	136,569	106,696
Interest earned	80,228	118,253
Interest expense	(104,183)	(112,620)
Gain on sale	9,489	18,915
Total nonoperating revenues (expenses)	122,103	131,244
Income (Loss) before contributions	84,189	156,642
Contributions from developers	101,900	495,424
Change in net assets	186,089	652,066
TOTAL NET ASSETS, BEGINNING OF YEAR	12,517,721	11,865,655
TOTAL NET ASSETS, END OF YEAR	\$12,703,810	\$12,517,721

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Because of the economy there was only a slight increase in revenue of approximately \$21,702, or 1.3%, due to increases in property taxes, water assessments, new homes contracted in 2008, and a small increase in operating income.

The District saw another increase in assessments with Davis & Weber Counties Canal Company 2008 water stock by \$29,870.

The District had an operating income loss of (\$37,914), or 5.1%. In 2008, salary and wages increased by \$45,567 or 14.1%.

Repair and maintenance costs also increased by \$24,927 or 28.0% from the previous year due to an increase in the cost of district property maintenance.

The total operating revenues for 2008 and 2007 were \$1,727,482 and 1,705,780, respectively.

Water assessments provided 87% of the District's revenue in 2008.

The total operating expenses for 2008 and 2007 were \$1,765,396 and \$1,680,382, respectively.

YEAR IN REVIEW

The District saw much smaller customer growth in 2008 due to economic slowing. Economic rebound is predicted in 2009 and 2010 at a much slower pace. It is believed that growth will continue because of the inventory of mid-priced homes located in the District's boundaries.

The District saw a reduction in property taxes due to the economy and housing market.

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

YEAR IN REVIEW (Continued)

Davis & Weber Counties Canal Company increases continue to diminish District revenue. The District Board of Trustees approved a rate increase March 18, 2009, to sustain the approximately \$30,000 per year stock assessment increase the District will incur. This is equivalent to an increase of \$25 per connection to ensure adequate income. Davis & Weber Counties Canal Company water stock assessments will continue to increase at this rate over the next several years, and the District will consider future increases if necessary.

Two important mainlines were replaced and constructed to improve service and flow in the system: A 12" mainline on 6000 South, from 3750 West to approximately 4300 West, is a major component in the backbone of the water system, and the upgrades will improve system functionality. The replacement project took place on 6075 South, from 2000 West to 2075 West.

The District staff continues to do a great job in maintaining the water system. In comparison to other entities, the District operates with a small staff that is very capable, efficient, and ensures the operations of the District are efficient.

The District lost one Board of Trustee member who was a stalwart member of the organization. He was one of the original founders of the organization who served for 43 years. This board member was very knowledgeable, wise, and a great source of information and experience. He will be greatly missed.

Reduction in fuel costs, as well as economic downturn provided some benefit to the District. Construction labor costs, material costs, and increased competition contributed to the 40% savings received by the District.

The District continued planned upgrades and improvements to the Geographical Information System (GIS) completing and resolving: licensing issues, moving basemap data from CAD to geodatabase, moving water data from CAD to geodatabase, as well as scanning additional documents that will be attached to the geodatabase.

ROY WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending December 31, 2008

SIGNIFICANT PROJECTS AND EVENTS FOR 2008

- The passing of a long-term Board of Trustee member.
- Equipment upgrades (i.e., backhoe and loader tractor), additional hardware, and software upgrades.
- Replacement of one foot bridge on District property with significant costs. This unforeseen project was unexpected and had a negative effect on the bottom-line of the District.
- Waterline replacement on 6075 South, from 2000 West to 2075 West, Roy, Utah, from 4" AC pipe to 6" PVC pipe.
- Installation of a new 12" PVC waterline on 6000 South, from 3750 West to approximately 4300 West, Roy, Utah.

FINANCIAL CONTACT

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District's Manager at 5440 South Freeway Park Drive, Riverdale, Utah 84405.

**ROY WATER CONSERVANCY DISTRICT
BALANCE SHEET
AS OF DECEMBER 31, 2008**

	<u>2008</u>	<u>2007 Comparative Only</u>
ASSETS:		
Current assets:		
Cash	\$ 276,174	\$ 71,716
Cash - savings	2,010,337	2,258,738
Inventory, at cost	43,944	27,712
Tax assessments receivable	128,738	143,782
Total current assets	<u>2,459,193</u>	<u>2,501,948</u>
Noncurrent assets:		
Restricted cash and cash equivalents	268,029	258,921
Unamortized bond issue costs	81,010	85,510
Water shares	1,305,911	1,305,911
Capital assets:		
Land	249,723	249,723
Land easements	1,258	1,258
Net depreciable capital assets	10,328,251	10,352,785
Total noncurrent assets	<u>12,234,182</u>	<u>12,254,108</u>
Total assets	<u><u>\$ 14,693,375</u></u>	<u><u>\$ 14,756,056</u></u>
LIABILITIES:		
Current liabilities:		
Payroll taxes payable	\$ 23,492	\$ 17,797
Accounts payable	32,577	62,281
Noncurrent liabilities due in one year	98,496	240,000
Total current liabilities	<u>154,565</u>	<u>320,078</u>
Noncurrent liabilities:		
Due in more than one year	1,835,000	1,918,257
Total noncurrent liabilities:	<u>1,835,000</u>	<u>1,918,257</u>
Total liabilities	<u>1,989,565</u>	<u>2,238,335</u>
NET ASSETS:		
Invested in capital assets, net of related debt	10,056,153	9,855,187
Restricted:		
Debt service	268,029	258,917
Capital improvements	-	-
Unrestricted	2,379,628	2,403,617
Total net assets	<u>12,703,810</u>	<u>12,517,721</u>
Total liabilities and net assets	<u><u>\$ 14,693,375</u></u>	<u><u>\$ 14,756,056</u></u>

The notes to the financial statements are an integral part of this statement.

ROY WATER CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

	2008	2007 Comparative Only
OPERATING REVENUES:		
Property taxes:		
Current	\$ 104,354	\$ 104,767
Delinquent	37,588	44,831
Motor vehicle	18,385	19,381
Water assessments	1,518,013	1,477,037
Lease income	43,839	44,636
Miscellaneous	5,303	15,128
	<hr/>	<hr/>
Total operating revenues	1,727,482	1,705,780
	<hr/>	<hr/>
OPERATING EXPENSES:		
Salaries and wages	367,685	322,118
Water assessments	414,632	384,273
Professional fees	80,850	96,832
Board of Directors	19,720	20,777
Conventions and workshops	48,705	53,322
Employee benefits and payroll taxes	161,026	157,489
Repairs and maintenance	113,927	89,000
Auto and truck	18,468	11,913
Supplies, printing and advertising	48,176	66,364
Depreciation	383,308	375,259
Amortization	4,501	4,501
Insurance	38,515	28,918
Telephone and utilities	59,957	58,394
Miscellaneous	5,926	11,222
	<hr/>	<hr/>
Total operating expenses	1,765,396	1,680,382
	<hr/>	<hr/>
Operating income (loss)	(37,914)	25,398
	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES):		
Impact fees	136,569	106,696
Interest earned	80,228	118,253
Interest expense	(104,183)	(112,620)
Gain on sale	9,489	18,915
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	122,103	131,244
	<hr/>	<hr/>
Income (Loss) before contributions	84,189	156,642
	<hr/>	<hr/>
Contributions from developers	101,900	495,424
	<hr/>	<hr/>
Change in net assets	186,089	652,066
	<hr/>	<hr/>
TOTAL NET ASSETS, BEGINNING OF YEAR	12,517,721	11,865,655
	<hr/>	<hr/>
TOTAL NET ASSETS, END OF YEAR	<u><u>\$ 12,703,810</u></u>	<u><u>\$ 12,517,721</u></u>

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	2008	2007 Comparative Only
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,742,526	\$ 1,779,870
Cash payments to suppliers	(875,092)	(752,247)
Cash payments to employees	(537,497)	(488,124)
Net cash provided by operating activities	<u>329,937</u>	<u>539,499</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash received from impact fees	136,569	106,696
Acquisition and construction of capital assets	(280,386)	(199,182)
Proceeds from sale of capital assets	33,000	21,050
Principal payments on revenue bonds payable	(230,000)	(225,000)
Interest payments on revenue bonds payable	(104,183)	(112,620)
Net cash used by capital and related financing activities	<u>(445,000)</u>	<u>(409,056)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	<u>80,228</u>	<u>118,253</u>
Net cash provided by investing activities	<u>80,228</u>	<u>118,253</u>
Net Increase (Decrease) in cash and cash equivalents	(34,835)	248,696
Cash and cash equivalents - beginning of year	<u>2,589,375</u>	<u>2,340,679</u>
Cash and cash equivalents - end of year	<u>\$ 2,554,540</u>	<u>\$ 2,589,375</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (37,914)	\$ 25,398
Reconciling adjustments:		
Depreciation	383,308	375,259
Amortization	4,501	4,501
(Increase) Decrease in tax assessment receivable	15,044	68,071
(Increase) Decrease in accounts receivable	-	6,019
(Increase) Decrease in inventory	(16,232)	(1,866)
Increase (Decrease) in payroll taxes payable	5,695	8,151
Increase (Decrease) in accounts payable	(29,704)	49,857
Increase (Decrease) in accrued annual leave	5,239	4,109
Total adjustments	<u>367,851</u>	<u>514,101</u>
Net cash provided by operating activities	<u>\$ 329,937</u>	<u>\$ 539,499</u>
Noncash capital and related financing activities:		
Capital contributions	\$ 101,900	\$ 495,424

The notes to the financial statements are an integral part of this statement.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Roy Water Conservancy District began operations in 1974. The District provides secondary water to residents in the Roy, Utah area. In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards board (GASB). Based upon the application of the criteria established by GASB Statement No. 14, the District has no component units.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the District has the option to apply FASB pronouncements issued after that date to its enterprise fund, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments.

The District has the following fund type:

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Enterprise Funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The accounts of Roy Water Conservancy District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual:

The government's financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at cost which approximates fair value.

Receivables and Payables

Property taxes are recognized when they are measurable and available. Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due on November 30.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair market value at the date of donation.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Water System	50
Vehicles	5
Equipment	7

Unamortized Bond Issue Costs

The District incurred \$113,156 in bond issue costs with the 2002 revenue bonds. The District amortizes those costs over the life of the bond using the straight-line method.

Accrued Annual Leave

The District accrues accumulated unpaid vacation when earned (or estimated to be earned) by the employee.

Long-term Liabilities

The District reports long-term liabilities at face value on the balance sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Equity

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (continued)

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the District's policy to first apply restricted resources before applying unrestricted resources when an expense is incurred for purposes by which both restricted and unrestricted net assets are available. The District only uses the restricted net assets for their specified purposes of debt service and capital improvements.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist of charges for services including property taxes assessed for those services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act" by the Roy Water Conservancy District on or before December 15th for the following fiscal year, which begins on January 1. Budgets may be increased by resolution of the Board of Directors at any time during the year, following a public hearing.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. On or before the first regular scheduled meeting in November, the Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- 2. Prior to the formal adoption of the budget the Board of Directors will hold budget workshop meetings, which are open to the public.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget Information (continued)

3. Prior to budget adoption the Board of Directors sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the Government Funds.
5. Budgets for the District are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Board of Directors during the 2008 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

2. DEPOSITS AND INVESTMENTS

The District's cash includes petty cash and amounts in demand deposits. This cash is displayed in the account titled "Cash." Investments are stated at cost or amortized cost, which approximates fair value. Deposits are not collateralized nor are they required to be by State statute. The District's investments are displayed on the balance sheet as "Cash – savings" and "Cash and cash equivalents" under the restricted asset caption.

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of District funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2008, \$250,000 of the District's bank deposits equal to \$283,568 were insured, but uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares:

	<u>Carrying Amount</u>	<u>Market Value</u>
PTIF Investments	<u>\$1,795,548</u>	<u>\$1,779,352</u>

The District also has investments in trust accounts at a bank. These deposits are insured under the Federal Depository Insurance Coverage, however, this amount is limited to \$250,000 per issuer. Of the \$482,817 invested in these funds, \$464,788 is insured; the remaining balance of \$18,029 is uninsured and uncollateralized.

As of December 31, 2008, the District had the following investments and maturities:

Investment Type	Cost	Investment Maturities (in Years)		Quality Ratings
		Less than 1	1-5	
PTIF Investments	1,795,548	1,795,548	-	not rated
Trust Accounts	268,029	268,029	-	not rated
Certificate of deposit	214,789	214,789	-	not rated
	<u>2,278,366</u>	<u>2,278,366</u>	<u>-</u>	

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Maturities of the District's investments are noted in the previous table.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at December 31, 2008, are as follows:

Reconciliation of deposits and investments:	
Deposits	\$ 276,024
Cash on hand	150
Investments	<u>2,278,366</u>
Cash and cash equivalents	<u><u>2,554,540</u></u>
Tie to statements:	
Cash	276,174
Cash - savings	2,010,337
Restricted cash and cash equivalents	<u>268,029</u>
	<u><u>\$ 2,554,540</u></u>

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

3. WATER SHARES

There were 1,493.5 shares of water rights in the Davis and Weber Counties Canal Company acquired at a cost of \$1,305,911 as of December 31, 2008.

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 249,723	\$ -	\$ -	\$ 249,723
Land easements	1,258	-	-	1,258
Total capital assets, not being depreciated	<u>250,981</u>	<u>-</u>	<u>-</u>	<u>250,981</u>
Capital assets, being depreciated				
Building	304,346	-	-	304,346
Equipment	798,997	84,578	(150,452)	733,123
Water delivery system	15,711,450	322,967	-	16,034,417
Total capital assets, being depreciated	<u>16,814,793</u>	<u>407,545</u>	<u>(150,452)</u>	<u>17,071,886</u>
Accumulated Depreciation for:				
Building	(50,806)	-	(6,735)	(57,541)
Equipment	(467,966)	101,681	(57,463)	(423,748)
Water delivery system	(5,943,236)	-	(319,110)	(6,262,346)
Total accumulated depreciation	<u>(6,462,008)</u>	<u>101,681</u>	<u>(383,308)</u>	<u>(6,743,635)</u>
Total capital assets, being depreciated, net	<u>10,352,785</u>	<u>509,226</u>	<u>(533,760)</u>	<u>10,328,251</u>
Business-type activities capital assets, net	<u>\$10,603,766</u>	<u>\$ 509,226</u>	<u>\$(533,760)</u>	<u>\$10,579,232</u>

5. RISK MANAGEMENT - CLAIMS AND JUDGEMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The District maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or in prior years.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

6. LONG-TERM LIABILITIES

During 2002 the District issued revenue bonds to refinance all existing debt and to finance a reservoir expansion. The bonds yield a 4.50% interest rate. Maturities of long-term debt for the next five years and subsequent five year increments are as follows:

<u>For the Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 75,000	\$ 94,983	\$ 169,983
2010	75,000	91,795	166,795
2011	75,000	88,608	163,608
2012	80,000	85,420	165,420
2013	80,000	81,420	161,420
2014-2018	475,000	346,745	821,745
2019-2023	605,000	213,200	818,200
2024-2026	445,000	47,060	492,060
	<u>\$1,910,000</u>	<u>\$1,049,231</u>	<u>\$2,959,231</u>

Activity with long-term liabilities including accrued annual leave for the year ended December 31, 2008 was as follows:

	<u>Balance January 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2008</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds Payable	\$ 2,140,000	\$ -	\$ (230,000)	\$ 1,910,000	\$ 75,000
Accrued Annual Leave	18,257	15,490	(10,251)	23,496	23,496
	<u>\$ 2,158,257</u>	<u>\$ 15,490</u>	<u>\$ (240,251)</u>	<u>\$ 1,933,496</u>	<u>\$ 98,496</u>

7. RESTRICTED NET ASSETS

Debt service - The 2002 revenue bonds contain a provision that the subsequent years' interest and principal payments be restricted to ensure the debt will be adequately serviced.

Capital improvements - The bond proceeds from the 2002 revenue bonds are restricted solely for capital improvements.

**ROY WATER CONSERVANCY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2008**

8. RETIREMENT SYSTEM

Plan description

The Roy Water Conservancy District contributes to the Local Governmental Noncontributory Retirement System which is for employers with social security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide funds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information of the Local Governmental Non-contributory Retirement System. The Utah State Retirement Systems is on a calendar year which ends December 31, 2008. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake District, UT 84102 or by calling 1-800-365-8772.

Funding policy

The District is required to contribute 11.62% of their covered salary from January 2008 through June 2008 and 11.62% of their covered salary from July 2008 through December 2008. The contribution rates are the actuarially determined rates. The contribution requirements of the system are authorized by statute and specified by the Board.

The contributions by the District to the Local Governmental Noncontributory Retirement System for the years ended December 31, 2008, 2007, and 2006 were \$30,472, \$26,436, and \$27,430 respectively. The contributions were equal to the required contributions for each year and were paid by the due dates or within 30 days thereafter.

The Utah State Retirement Board does not segregate the assets and vested benefits of the individual plans by unit within the system. Therefore, it is not possible to determine the portion of the assets and vested benefits or unfunded liabilities of the plans that are applicable to District employees.

The District also provides a 401-k plan for employees. All employees are given the opportunity, through payroll deductions, of additional participation in the 401-k plan. The contributions by the District to the 401-k plan for the years ended December 31, 2008, 2007, and 2006 were \$27,842, \$26,332, and \$25,787 respectively. Contributions by employees were \$9,382, \$6,567, and \$7,333 respectively.

SUPPLEMENTARY INFORMATION

**ROY WATER CONSERVANCY DISTRICT
IMPACT FEE REPORTING
JUNE 30, 2008**

Impact fees are a funding tool used by local governments to place the cost of specific entity improvements to those that are creating the need for the improvements. Roy Water Conservancy District has established an impact fee that is charged to either the developer or individual property owners.

The District has overspent impact fee revenue in past years by \$561,806; therefore a zero balance appears on the balance sheet.

In the 2008 year fees were collected from the following project areas as outlined in the impact fee analysis:

AREA 1, 3, & 4

CASTLE CREEK HOMES LLC	809
WOODSIDE HOMES	1,656
NEWLAND ENTERPRISES	2,277
WOODSIDE HOMES OF UTAH	207
NEWLAND ENTERPRISES	1,863
WOODSIDE HOMES	1,863
WOODSIDE HOMES OF UTAH	846
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
IVORY HOMES	1,223
WOODSIDE HOMES OF UTAH	2,709
MARK HIGLEY CONSTRUCTION	376
MARK HIGLEY CONSTRUCTION	376
NEWLAND ENTERPRISES	2,070
GREAT AMERICAN HOMES	809
MARK HIGLEY	376
WOODSIDE HOMES OF UTAH	2,070
CASTLE CREEK HOMES LLC	1,016
BARR, GARY	1,223
SPENCER, DEVERL	1,430
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
HARGIS, KAY	750
JONES, DOYLE C.	8,500
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	2,070
CASHIER'S CHECK/BRYAN ELLISON	2,502
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
CASTLE CREEK HOMES LLC	1,016
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656

BEEZLEY, LOWELL	1,223
CASTLE CREEK HOMES LLC	1,016
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,863
WOODSIDE HOMES OF UTAH	2,070
REPUBLIC MORTGAGE HOME LOANS/BRAD HADLEY	1,016
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
NILSON HOMES	1,223
WOODSIDE HOMES OF UTAH	1,656
HOOPER CITY	34,532
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,863
WOODSIDE HOMES OF UTAH	1,656
CASTLE CREEK HOMES LLC	809
CASTLE CREEK HOMES LLC	809
WOODSIDE HOMES OF UTAH	1,656
WOODSIDE HOMES OF UTAH	1,656
	<hr/>
	117,581

AREA 2

IVORY HOMES	650
GREAT AMERICAN HOMES	1,237
SLOAN, ALAN & ALYSON	941
WEST HAVEN TOWN HOMES LLC	1,000
WEST HAVEN TOWN HOMES LLC	5,717
WEST HAVEN TOWN HOMES LLC	5,000
OGDEN CLINIC	1,989
IVORY HOMES	556
DHI BUILDERS LLC	1,898
	<hr/>
	18,988
	<hr/>
	136,569

All of these impact fees were spent in 2008.

Future expenditures are planned with the new master plan for additional expansion of the water system. These planned expenditures are in the following table:

<u>Year</u>	<u>Description</u>	
2009	4000 S from Midland Dr. to East of Canal	\$ 111,336
2009	4300 W from 4800 S to 4650 S	119,580
2009	Johnson Well	335,100
2009-2010	3500 W from 4800 S to 4650 S	180,972
2009-2012	3500 W from 4800 S to 5200 S	241,026
2009-2012	3500 W from 5700 S to 6000 S	139,680
2009-2012	3500 W from 5500 S to 5600 S	63,612
2013	4800 S along RR tracks to 4000 S	306,120
		<u><u>\$ 1,497,426</u></u>

AUDITORS' REPORTS

INDEPENDENT AUDITOR'S REPORT
STATE OF UTAH LEGAL COMPLIANCE

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

To the Board of Directors
Roy Water Conservancy District

We have audited the accompanying financial statements of the business-type activities of Roy Water Conservancy District, for the year ended December 31, 2008 and have issued our report thereon dated May 27, 2009. Our audit included testwork on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Truth in Taxation & Property Tax Limitations
Cash Management	Purchasing Requirements
Budgetary Compliance	Other General Compliance Issues
Impact Fees	General Compliance Special Districts
Utah Retirement System	

The District did not receive any major or non-major State grants during the year ended December 31, 2008.

The management of Roy Water Conservancy District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, Roy Water Conservancy District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2008.

Wood Richards & Associates

May 27, 2009

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Roy Water Conservancy District

We have audited the financial statements of the business-type activities of Roy Water Conservancy District as of and for the year ended December 31, 2008, which collectively comprise Roy Water Conservancy District's financial statements and have issued our report thereon dated May 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Roy Water Conservancy District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Roy Water Conservancy District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Roy Water Conservancy District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Roy Water Conservancy District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Roy Water Conservancy District's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Roy Water Conservancy District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Roy Water Conservancy District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, UT
May 27, 2009